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SUBJECT: BULGARIA: THREE-PARTY COALITION FINALLY FORMS A NEW GOVERNMENT

Ref: A) SOFIA 1429 B) SOFIA 1329 C) SOFIA 1404 D) SOFIA 1380 E) SOFIA 1363 F) SOFIA 1325 G) SOFIA 1124

11. (SBU) SUMMARY: Nearly eight weeks after general elections, the three largest parties in parliament are poised to form a coalition government. In an extraordinary session scheduled for later today (August 16), Parliament is expected to approve the Bulgarian Socialist Party's (BSP) Sergei Stanishev as Prime Minister, along with eight BSP ministers. The National Movement for Simeon II (NMSS) and the mainly ethnic-Turkish Movement for Rights and Freedoms (MRF) will pick up five and three ministries respectively. END SUMMARY

A THREE-PARTY COALITION GOVERNMENT FORMED

12. (SBU) The BSP, which won an inconclusive victory June 25 and fell short of a majority, signed on August 15 a coalition agreement with the defeated NMSS and the MRF. If approved at an afternoon session of parliament on August 16, this coalition will have the largest parliamentary majority in Bulgaria's post-communist history, with a total of 169 MPs in the 240-seat parliament. This majority is more than the two-thirds required to pass constitutional amendments necessary for EU accession. The coalition partners and the President moved with unprecedented speed to secure earlier-than-normal parliamentary approval of Bulgaria's new government. Less than two hours after the parties signed the agreement, the President -- who has publicly declared his frustration with the slow pace of negotiations -- handed the mandate to PM-designate Sergei Stanishev, appointed as the MRF's candidate. Stanishev previously failed to form a government using the BSP's mandate.

13. (SBU) The parties have reportedly agreed to focus on the central issues of "European integration, economic growth and social responsibility." Behind this public agreement, however, lie serious differences on major policy issues, including privatization, fiscal policy and government administration. These differences are supposed to be resolved by a proposed Coalition Council comprised of five representatives from each party. It is designed to give the two smaller coalition partners an equal voice on matters of national importance and act as a counterweight to the formal cabinet, where the BSP holds an absolute majority. It remains to be seen whether this informal council will have any real effect on governance.

LINE-UP OF THE NEW GOVERNMENT, WHO GETS WHAT

14. (SBU) Many ministers were unchanged from the BSP's first attempt to form a government (ref B), including the two prominent BSP deputy leaders, Rumen Petkov and Rumen Ovcharov, who were named Minister of Interior and Minister of Economy and Energy, respectively. The BSP has submitted Ivailo Kalfin as Minister of Foreign Affairs and Plamen Oresharski -- a generally well-respected technocrat -- as Finance Minister. The biggest cabinet surprise is the absence of a few of the NMSS' stars. Plamen Panayotov, who served as Deputy Prime Minister in the Simeon cabinet and is NMSS Deputy Chairman, unexpectedly disappeared from the cabinet list late August 15. Outgoing Finance Minister Milen Velchev is also absent. One frustrated NMSS contact told us his party did much worse in this cabinet than it would have in the first mandate proposal turned down by the NMSS. He believed the biggest losses were the economic ministries, which left no post for Velchev. The media is already reporting Velchev may be a candidate for Mayor of Sofia. In another unexpected move, Daniel Vulchev, who is a member of the NMSS political council, is proposed to be Deputy Prime Minister and Minister of Education. The line-up also includes the outgoing Interior Minister Georgi Petkanov, who is named Minister of Justice. In addition, the NMSS has nominated Vesselin Bliznakov as Minister of Defense. Bliznakov, 61, is currently an NMSS MP, a member of the party's Political Council and General Secretary of NMSS.

WHAT ABOUT SIMEON

16. (SBU) The coalition agreement is the culmination of extensive negotiations with the defeated party of outgoing PM Simeon Saxe-Coburg. Simeon will play no role in the new

government, but will retain his position as party leader. The outgoing PM told the press that NMSS has joined the coalition with the assurance that Council of Ministers' decisions will be taken by consensus. NMSS insiders have told us privately, however, that they expect problems with the BSP on reaching consensus on some important issues.

17. (SBU) COMMENT: Bulgarians are breathing an exasperated sigh of relief now that a new government seems in place. In addition to delays in the EU accession process, the current

carryover government has been unimpressive in its response to severe flooding. President Purvanov's public chastisement of the political parties -- and likely private prodding -- appear to have focused the leaders on forming a government that will be stable in the short-to-medium term. This should be long enough to get Bulgaria through the difficult EU accession process in the next several months. However, as with all coalition governments, seemingly small disagreements could unwind this broad but very diverse group. The broad nature of the coalition should, however, mitigate against any abrupt changes in economic or foreign policy. Moreover, most ministries that are important to the USG are headed by moderates who are well known to us. Septels will report in more detail on the composition of the government and its implications for U.S. interests. END COMMENT